

Message Text

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ACTION EA-09

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TO SECSTATE WASHDC 1264

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E.O. 11652: NA

TAGS: EINV, PP

SUBJ: PAPUA NEW GUINEA PULP COMPANY PTY, LTD.

REF: STATE 52628

1. ECONOFF DISCUSSED PROJECT AND ATTITUDE OF GPNG WITH ACTING DIRECTOR NIDA TERRY AYRES. AYRES STATED THAT GPNG HAS MADE IT CLEAR GOVERNMENT DESIRES PROJECT, RECOGNIZES EXPENSES P&W HAS INCURRED IN DEVELOPING PLANS FOR PROJECT, BUT THAT SOME CONCLUSION TO PROTRACTED NEGOTIATIONS MUST BE MADE SHORTLY. OTHERWISE, GPNG WILL BE FORCED TO CONSIDER OTHER ALTERNATIVES.

2. AYRES GAVE ECONOFF COPY OF RECENT LETTER SENT TO CARL LANDEGGER, PRESIDENT, PARSONS & WHITTEMORE, MARCH 10, 1976 OVER SIGNATURE OF GAVERA REA, MINISTER FOR LABOUR COMMERCE & INDUSTRY. SALIENT PARTS OF LETTER FOLLOW. BEGIN QUOTE: I AM SURE THAT YOU WILL SHARE MY CONCERN THAT THE ESSENTIAL QUESTION OF GOVERNMENT LOAN GUARANTEES AND EQUITY PARTICIPATION IN THE PROJECT HAVE NOT BEEN RESOLVED. THE GOVERNMENT HAS IN PAST MEETINGS AND BY TELEX STATED THAT IT CANNOT, BEARING IN MIND ITS PRESENT RESOURCES, GIVE LOAN GUARANTEES OR A BINDING COMMITMENT TO SUBSTANTIAL EQUITY PARTICIPATION. IT HAS, HOWEVER, GIVEN UTMOST CONSIDERATION TO ALTERNATIVE MEANS OF ASSURING THAT THE PROJECT IS SECURE AND ECONOMICALLY VIABLE. EQUALLY IT APPEARS FROM YOUR REVISED PROPOSAL AND FROM MR. P.R. GIBSON'S LETTER OF THE 9TH JANUARY 1976 TO NIDA THAT YOUR COMPANY

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MAINTAINS ITS VIEW THAT LOAN GUARANTEES AND A MAJOR GOVERNMENT

EQUITY ARE MINIMUM CONDITIONS FOR ITS PARTICIPATION IN THE PROJECT. I CAN ASSURE YOU THAT THE GOVERNMENT APPRECIATES YOUR CONCERN THAT IT BE COMMITTED TO THE SUCCESS OF THE PROJECT, HOWEVER I BELIEVE IT IS EQUALLY IMPORTANT THAT THE COMPANY HAS A CLEAR UNDERSTANDING OF OUR OWN PROBLEMS.

I HAVE RECEIVED A LETTER FROM THE MINISTER FOR FINANCE WHICH SETS OUT THE GOVERNMENT'S VIEWS ON BOTH MATTERS AND ITS NEGOTIATING BOUNDRIES. HE HAS REQUESTED THAT HIS COMMENTS BE PASSED ON TO YOU, AND I QUOTE FROM HIS LETTER AS FOLLOWS: BEGIN QUOTE: LOAN GUARANTEE

.
THE GPNG IS NOT PREPARED TO GUARANTEE LOANS RAISED FOR PRIVATE SECTOR COMMERCIAL PROJECTS. THIS IS PARTICULARLY TRUE OF A VERY LARGE PROJECT SUCH AS VANIMO WHERE THE POTENTIAL LIABILITY IS VERY SUBSTANTIAL IN RELATION TO THE GOVERNMENT RESOURCES. IT IS NOT APPROPRIATE THAT WE SHOULD GUARANTEE LOANS DRAWN AGAINST A PROJECT OVER WHICH WE DO NOT, AND CANNOT BE EXPECTED TO HAVE, MANAGEMENT CONTROL. TO ASSUME THE COMMERCIAL RISKS ASSOCIATED WITH ANY PROJECT WITHOUT ALSO ACQUIRING MANAGEMENT CONTROL OVER THE PROJECT WOULD BE UNACCEPTABLE. ACCORDINGLY ANY FURTHER DISCUSSION OF THE PROJECT MUST BE BASED ON A CLEAR UNDERSTANDING THAT THE GOVERNMENT LOAN GUARANTEE WILL NOT BE FORTHCOMING.

GOVERNMENT EQUITY. I RECOGNISE FULLY THE IMPORTANCE TO ANY MAJOR PROJECT OF A POSITIVE COMMITMENT TO ITS SUCCESS BY THE GOVERNMENT. THIS CAN TAKE VARIOUS FORMS. IN THE CASE OF PNG WE HAVE SOUGHT TO PROVIDE CONDITIONS FOR DEVELOPMENT OF MAJOR PROJECTS CONDUCTIVE TO THEIR EARLY COMMENCEMENT AND COMMERCIAL SUCCESS. IN PARTICULAR I HAVE INDICATED REPEATEDLY THE GOVERNMENT'S DETERMINATION TO PURSUE A HARD CURRENCY STRATEGY, TO MAINTAIN AN OPEN ECONOMY AND TO PURSUE LIBERAL EXCHANGE CONTROL POLICIES. I BELIEVE THAT THE ECONOMIC ENVIRONMENT EMERGING FROM THE GOVERNMENT'S POLICIES WILL BE ONE OF THE MORE ATTRACTIVE IN A WORLD OF INCREASING CONTROLS AND REGULATIONS

.
I HAVE ALSO INDICATED THAT IN THE CASE OF MAJOR PROJECTS OF NATIONAL IMPORTANCE THE GOVERNMENT IS PREPARED TO CONSIDER PROVIDING GUARANTEES OF FOREIGN EXCHANGE CONVERTIBILITY. FURTHER, IF AN ACCEPTABLE CONCESSION AGREEMENT CAN BE NEGOTIATED THEN FOR PROJECTS OF VERY GREAT IMPORTANCE WE WILL CONSIDER LEGAL ARRANGEMENTS WHICH PROVIDE VERY CONSIDERABLE ASSURANCE OF STABILITY AND CONTINUITY. THE ABOVE, ON THEIR OWN, REPRESENT A CONSIDERABLE COMMITMENT TO THE SUCCESS OF PRIVATE SECTOR PROJECTS. IN THE CASE OF VANIMO YOU LIMITED OFFICIAL USE

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HAVE INDICATED A STRONG DESIRE FOR US TO COMMIT OURSELVES AS EQUITY PARTNERS. GIVEN THE SIZE OF THE PROJECT THIS WOULD BE A VERY MAJOR STEP FOR US, AND NOT ONE TO BE UNDERTAKEN LIGHTLY. HOWEVER, IN VIEW OF YOUR INDICATION THAT IT MAY BE POSSIBLE FOR YOUR COMPANY TO HELP FUND ANY EQUITY PARTICIPATION CONTEMPLATED BY PNG THEN WE SHALL CERTAINLY BE PREPARED TO DISCUSS THIS POSSIBILITY. IF EVERYTHING ELSE LOOKS RIGHT THEN WE MAY INDEED DECIDE TO TAKE UP SOME SHARE OF THE EQUITY. END MINISTER OF FINANCE JULIUS CHAN STATEMENT AND BEGIN

FINAL STATEMENT BY GAVERA REA: I FEEL THAT THE FOREGOING COMMENTS
WILL CLARIFY BOTH OUR SUPPORT AND ITS LIMITATIONS.
AS YOU KNOW, THE GOVERNMENT IS UNDER CONTINUING PRESSURE TO DEVELOP
THE RESOURCE, AND I TRUST THAT YOU WILL NOW BE ABLE TO COME TO A
FIRM DECISION ON WHETHER TO PROCEED WITH NEGOTIATIONS WITHIN THE
LIMITS SET OUT OR WITHDRAW FROM THE PROJECT. I BELIEVE, IN BOTH
OUR INTERESTS, THAT A DECISION IS NECESSARY BY THE END OF APRIL,
EITHER IN ORDER TO PREPARE FOR NEGOTIATIONS OR FOR THE GOVERNMENT TO
BEGIN CONSIDERATION OF POSSIBLE ALTERNATIVES.
IF YOUR DECISION IS NOT TO HAND BY THE 30TH APRIL 1976 THE
GOVERNMENT WILL ASSUME THAT YOUR COMPANY IS NO LONGER INTERESTED,
BUT WE LOOK FORWARD TO HEARING FROM YOU BEFORE THAT DATE. END QUOTE.

3. EMBASSY HAS NOT SEEN RECENT CORRESPONDANCE EXCHANGED BETWEEN P&W
AND NIDA OTHER THAN ABOVE LETTER AND THUS IS NOT IS A POSITION TO
FULLY UNDERSTAND CONCERNS OF EITHER SIDE. FROM VARIOUS INFORMAL
COMMENTS OF OFFICIALS OVER PAST EIGHTEEN MONTHS, HOWEVER, IT IS
EVIDENT GPNG KEENLY DESIRES SUCCESSFUL CONCLUSION TO THESE PRE-
NEGOTIATION DISCUSSIONS AND WILL BE DEEPLY DISAPPOINTED IF AN
ACCEPTABLE COMPROMISE CANNOT BE REACHED. IT IS POSSIBLE THAT THE
GPNG WILL SIGN THE PENDING OPIC AGREEMENT WITHIN THE NXT TWO MONTHS
WHICH MIGHT LESSEN P&W'S CONCERN REGARDING A GOVERNMENT GUARANTEE.
WE ALSO UNDERSTAND THAT EFIC WILL GUARANTEE APPROXIMATELY US\$200
MILLION OF PROJECT.

4. PLEASE REITERATE TO P&W EMBASSY'S WILLINGNESS TO ASSIST IN ANY
APPROPRIATE WAY IF CALLED UPON.
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Message Attributes

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